MISTRAL LONG SHORT EQUITY

INVESTOR LETTER – Q2 2025

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In accordance with article 8 of EU regulation 2019/2088, the fund promotes environmental, social and governance characteristics in accordance with European regulation. Notably, the fund's investment process excludes companies having low practice or standards in these sectors, or those with a high long term sustainability risk.

Banor SICAV Mistral Long Short Equity closed the second quarter of 2025 with a return of +3.7% (Institutional Class J), compared to a return of +1.0% for the EURO STOXX 50 European equity index and +0.6% for cash (€STR Compounded index) over the same period. This brought the benchmark index (50% EURO STOXX 50, 50% Cash) to +0.8%. Since the beginning of the year, the returns for the fund, the equity index, and cash have been +9.0%, +8.3%, and +1.2%, respectively.

The second quarter initially saw a continuation of the narrowing valuation gap between European and US equities, driven by uncertainty over US trade policy, which was expected to weigh more heavily on the US economy. The introduction of universal tariffs was perceived by the market as a form of indirect tax on consumption (a disguised VAT), to be passed on by companies through price increases ultimately borne by US consumers. European stock indices continued to outperform through April and part of May, until the US S&P 500 index regained relative strength in late May. However, in euro terms, the performance gap between the two indices was far less pronounced.

At the end of the first quarter, we highlighted the difficulty of defining a macroeconomic outlook due to uncertainty around tariffs and President Trump's frequent changes in stance. Three months later, the situation remains similar. The US president has been sending letters to various countries proposing bilateral tariff negotiations ahead of the final deadline of 1 August, all the while threatening to impose a universal tariff that has increased from an initial 10% to a recently announced 15-20%.

We had anticipated that this environment would result in a sharp economic slowdown, stemming from business uncertainty hampering investment plans and affecting employment levels. This expectation has only partially materialised. US GDP growth for 2025 has been revised down from 2.1% at the beginning of the year to 1.5% currently, with private investment growth slowing from 4% in 2024 to a projected 1.6% in 2025. However, consumer spending—the largest component of US GDP—continues at a healthy pace, and employment remains strong, with unemployment projected to rise only marginally this year.

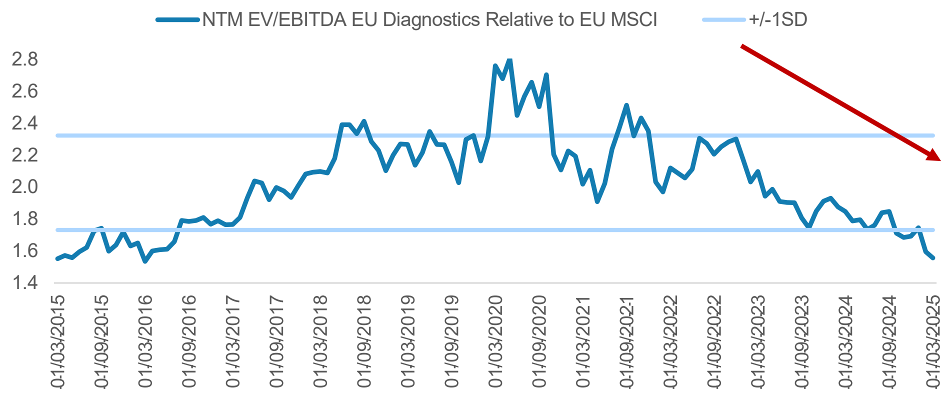
This resilience has been summed up by the acronym TACO (Trump Always Chickens Out), highlighting the perception that President Trump often backtracks at the last moment out of caution. His repeated changes in tariff policy—announcing measures only to delay or modify them—have contributed to this narrative. Even the recent announcement of 30% tariffs on Canada, Mexico, and the European Union is viewed more as a negotiating tactic than a definitive move.

From a portfolio management perspective, the unpredictability in political statements since mid-April did not translate into increased market volatility. Once the VIX volatility index retreated to the 17-18 range, we began systematically adding hedges through put options to help limit potential losses in the event of a sudden macroeconomic shock. The fund has maintained a volatility of around 7%, and our goal is to remain below 10%, compared to equity indices which are currently in the 15% range.

We continue to hold a significant portion of our long book in defensive sectors, including food, beverage, pharmaceuticals, utilities, real estate, and telecoms. These positions currently offer an average dividend yield of approximately 4.5%, which remains sustainable given the solid fundamentals of the underlying companies.

One sector we believe is being unjustly penalised by the market is MedTech, which currently represents around 10% of our long portfolio. This sector includes companies producing a wide array of medical equipment, from diagnostic imaging systems to prosthetics, anaesthesia machines to hearing aids. What unites these businesses is a strong emphasis on continuous innovation, supported by significant R&D investment aimed at driving above-average growth. Historically, the MedTech sector has traded at a premium to the broader market due to its defensive growth profile. However, this premium is now at its lowest level in the past ten years.

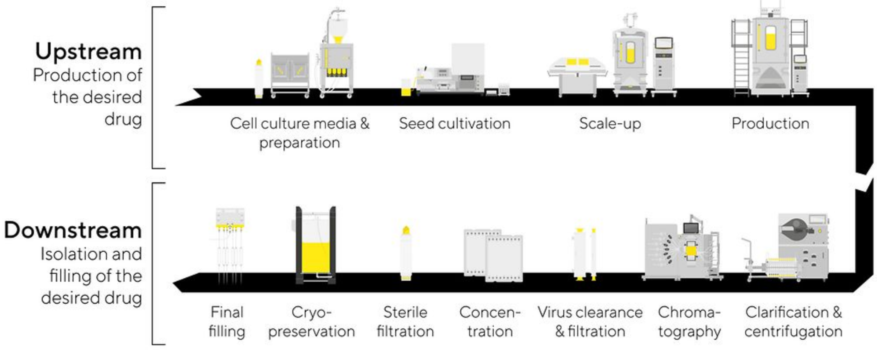
EV/EBITDA of EU Diagnostic Companies Relative to MSCI Europe Index



Source: Bloomberg, MSCI, Banor data processing

There are three main reasons behind the derating that began in 2022: the rise in interest rates, the normalisation of growth after several years of anomalies caused by Covid and supply chain disruptions, and the recent introduction of tariffs by the Trump administration.

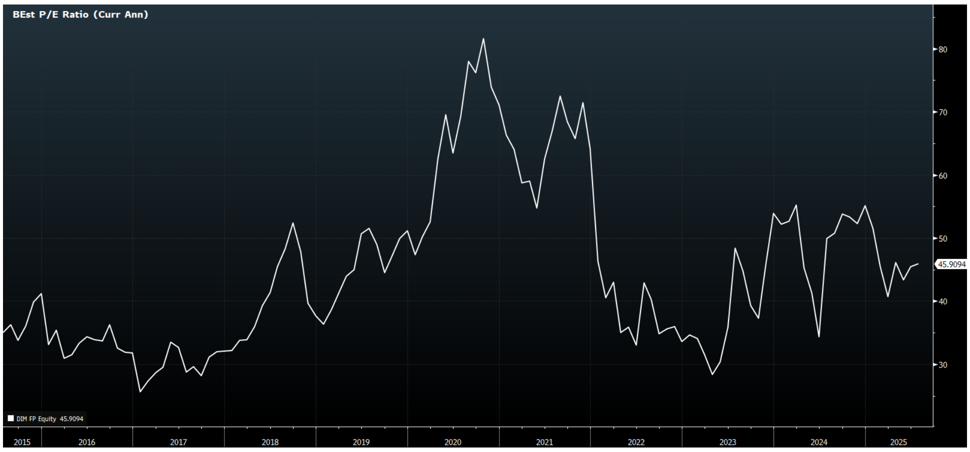
To illustrate the impact of these factors, let us consider the case of Sartorius Stedim, a company we added to our portfolio a few weeks ago. Sartorius Stedim is the global leader in biopharmaceutical manufacturing, with operations in 30 countries and over 10,000 employees. Its product portfolio covers the entire range of equipment required to develop, test, and produce biopharmaceuticals—drugs produced using biotechnology and derived from biological sources such as cells, tissues, and microorganisms. Unlike traditional drugs, typically made through chemical processes, biopharmaceuticals are mainly used to treat conditions such as cancer, autoimmune diseases, and genetic disorders. Examples include vaccines, insulin, gene therapies, and antibodies. Sartorius Stedim supports the entire production chain, from development and production (upstream) to downstream processing and single-dose packaging:



Source: Sartorius Stedim website

The rise in interest rates from 2022 triggered the first wave of valuation normalisation. Previously, Sartorius' P/E ratio, initially around 30x, surged past 70x during the era of negative interest rates when the market excessively rewarded growth based on the assumption that central banks would keep rates suppressed indefinitely.

Sartorius Stedim P/E Ratio 2015-25



Source: Bloomberg, Banor data processing

At the same time, the post-Covid economic rebound—fuelled by monetary and fiscal stimulus—created significant supply chain bottlenecks. The MedTech sector benefited significantly, being seen as central to government healthcare strategies. Sartorius' revenue, which had been growing steadily at 10–12% annually until 2020, skyrocketed—boosted partly by Covid-related therapies and partly by customers increasing inventory levels to avoid shortages of key raw materials and equipment. This resulted in a doubling of revenues in less than two years.

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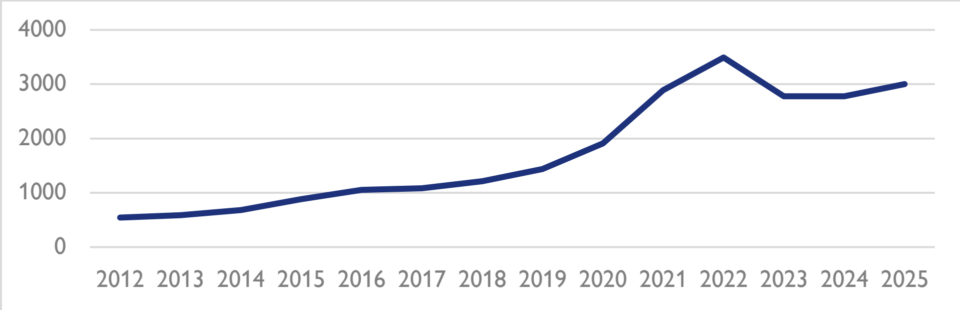
Sartorius Stedim Annual Revenues (EUR mn)



Source: Sartorius Stedim annual reports, Bloomberg

Starting in 2023, the situation began to normalize. Revenues declined over two years as customers reduced inventory levels, though underlying market growth remained in double-digits. From the second half of 2025, Sartorius Stedim's revenues are expected to return to this healthy growth trajectory.

Finally, with the introduction of tariffs by the Trump administration in 2025, it will be important to monitor any potential impact of possibly bringing forward some purchases. However, given the sector's concentration among a few key players, we believe competitive dynamics are unlikely to change materially.

The stock's performance has mirrored these developments: steady growth until 2019, a sharp rally between 2020 and early 2022, followed by a correction that brought valuations back to reasonable levels by 2025—over 60% below historical highs.

Sartorius Stedim Stock Price 2015-25

Source: Bloomberg, Banor data processing

SUMMARY

After a first half of the year marked by shifting narratives—from low growth, to recession fears, to hopes of a return to robust growth—and accompanied by a weakening dollar and ongoing debate about inflation trends (especially in the US), we believe the second half of the year will be driven more by actual company results than by market expectations. It will be critical to see whether companies confirm their 2025 guidance, as this will determine whether recent market gains can hold. Initial indications suggest that estimates for European companies are generally conservative, which could allow the ongoing trend of closing the European valuation discount with the US to continue. This may also be supported by recent political progress—particularly in defence spending and foreign policy unity—where European institutions, which had seemed paralysed until recently, have indirectly benefitted from the Trump administration's actions. Recent initiatives, such as increased defence budgets and Germany's stimulus plan, point to a shift in focus over the coming years toward boosting domestic demand. This strategy would leverage public budgets and household savings, favouring companies more exposed to domestic consumption rather than relying solely on exports.

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Investment Manager Banor SICAV Mistral Long Short Equity

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Advisor

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